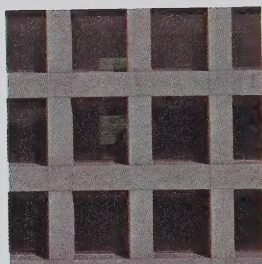


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MacMillan Bloedel Limited

Annual Report 1968



Summary of Significant Facts

	Year ended December 31 1968*	Year ended December 31 1967*
EARNINGS		
Income		
Sales of products and services.....	\$578,682,162	\$534,816,599
Other income.....	5,808,444	5,767,865
Total income.....	<u>\$584,490,606</u>	<u>\$540,584,464</u>
Earnings before income taxes.....	\$ 78,829,069	\$ 74,119,304
Net earnings after income taxes		
Amount.....	\$ 38,799,447	\$ 36,189,166
Per share.....	\$ 1.86	\$ 1.74
Charge for		
Depreciation.....	\$ 28,390,560	\$ 21,901,520
Depletion.....	5,398,421	4,832,870
Amortization of logging roads.....	5,097,361	4,366,963
	<u>\$ 38,886,342</u>	<u>\$ 31,101,353</u>
Earnings retained in business at end of year.....	\$193,651,468	\$175,786,165
BASIC CASH FLOW		
Amount.....	\$ 81,318,431	\$ 75,003,231
Per share.....	\$ 3.90	\$ 3.60
CAPITAL EXPENDITURES.....	\$ 77,609,013	\$119,863,008
PERCENTAGE OF LONG TERM DEBT TO TOTAL CAPITAL EMPLOYED (including deferred tax).....		
	37.1	36.7
DIVIDENDS		
Cash - Ordinary shares		
Amount.....	\$ 20,856,255	\$ 25,027,505
Per share.....	\$ 1.00	\$ 1.20
Cash - Preference shares		
Amount.....	\$ 77,889	\$ 77,889
Per share.....	\$.03	\$.03
EMPLOYEES		
Wages, salaries and employee benefits.....	\$151,115,715	\$132,698,261
Number at end of year.....	18,017	16,549
SHAREHOLDERS		
Number at end of year**.....	23,751	24,671

*Statistics and charts throughout this report do not reflect the consolidation of overseas subsidiaries other than for equity in net earnings (see Note 1 to Financial Statements).

**Excluding holders of share warrants.



Directors' Report to the Shareholders

The year under review was a difficult but, nevertheless, a significant one for the Company in that it marked the completion of a five-year expansion programme which saw:

- ☐ major extensions to, and modernization of, the Company's productive facilities;
- ☐ completion of the new lumber, plywood and linerboard complex in Alabama;
- ☐ major developments in the United Kingdom lumber and packaging markets;
- ☐ bridge-heads established in the European fine paper market with interests in mills in Holland, Belgium and Spain;
- ☐ outlets for the Company's lumber products strengthened in the markets of eastern Canada and the eastern United States;
- ☐ new cost-cutting transportation facilities;
- ☐ efficient consolidation of the Head Office staff in the Company's new building.

All of the projects undertaken in this five-year period are now in operation.

1968 marked the fifth year of the Company's intensive forestry programme and the planting of the sixty-millionth tree.

It also saw the foundations laid for a broad new programme of diversification and further expansion in the creation of a Department of Strategic Planning and Development.

During 1968, however, inflation plagued the economy and two other factors adversely affected operations:

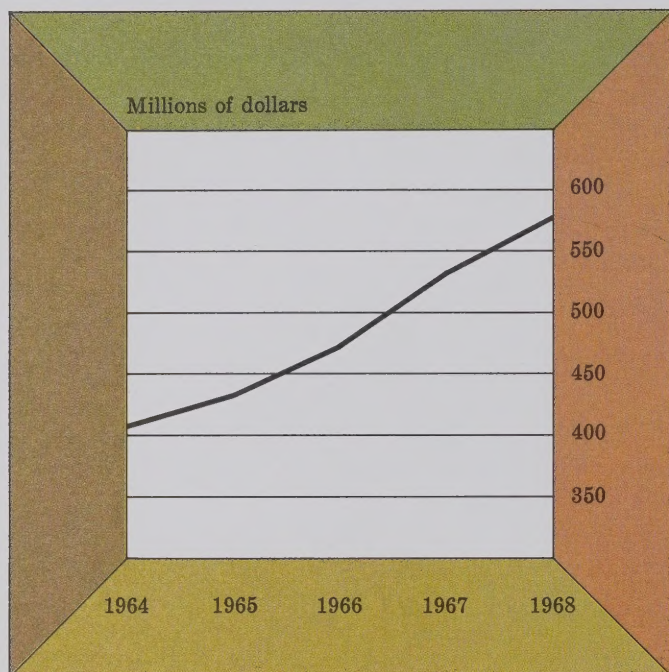
1. the continued world over-capacity of kraft pulps, and
2. the lower demand for newsprint from our major customers in the western United States. While sales to these customers fell, the over-all reduction in newsprint sales was comparatively slight because of the aggressive steps which were taken to develop off-shore markets, particularly in the Pacific Rim.

Despite these difficulties there was a continued improvement in sales and other income which reached a total of \$584,490,606*, an increase of 8.1% over the 1967 figure of \$540,584,464*. Net earnings, at \$38,799,447, or \$1.86 per share, were up by 7.2% compared to \$36,189,166, or \$1.74 per share in 1967. The 1968 figure includes \$1,942,177 representing net profit on disposal of investments and capital assets. Basic cash flow was up by 8.4% from \$75,003,231 (\$3.60 per share) to \$81,318,431 (\$3.90 per share).

A review of each of the Company's principal areas of operation follows:

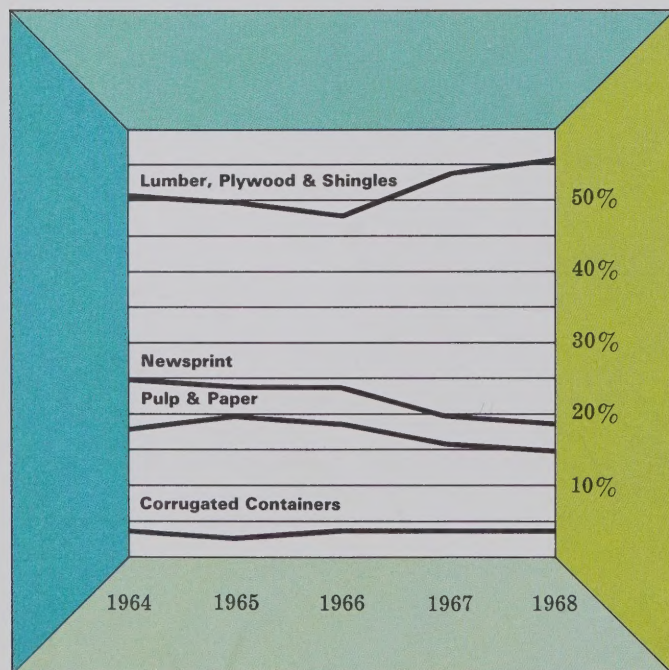
*not including sales of subsidiaries in the United Kingdom, but including sales to them.

1. Sales of Products and Services



2. Sales of Products by Markets

	1968	1967
U.S.A.	41.5%	40.2%
B.C.	8.0%	8.0%
Rest of Canada	16.0%	16.4%
U.K.	8.0%	10.8%
Japan & Orient	11.2%	10.5%
Other	15.3%	14.1%



3. Percentage Contribution to Sales by Products

	1968	1967
Purchases of Goods, Supplies & Services	51.5%	53.4%
Wages, Salaries & Employee Benefits	25.9%	24.5%
Federal, Provincial & Municipal Direct Taxes	9.3%	9.6%
Depreciation, Depletion & Amortization	6.7%	5.8%
Dividends	3.6%	4.6%
Earnings Retained	3.0%	2.1%

4. Distribution of Total Income

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**MacMillan
Bloedel Limited**

and Subsidiary Companies

**Interim Report
to the Shareholders for
the Year Ended
December 31, 1968**

1. Sales of Products and Services

2. Sales of Products by Markets

INTERIM REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1968

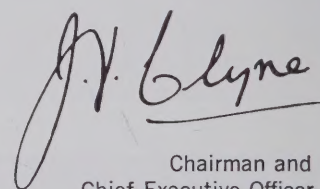
I present herewith a short preliminary report upon the financial results for the year ended December 31, 1968.

Sales and Other Income amounted to \$584,490,606 as against \$540,584,464 for the previous year representing an increase of about 8%. The Net Earnings for the year were \$38,799,447, an increase of about 7% over the figure for the previous year of \$36,189,166.

The two major expansion programmes at Powell River, B.C. and Pine Hill, Alabama, involving an expenditure of over \$200 million, have been completed and are now in production. The year 1968 however reflected a generally unsatisfactory market condition in pulp and

paper coupled with the customary start-up costs in the new facilities. The lumber market improved during 1968 as a result of strong demand in all areas.

The Annual Report of the Board of Directors, including complete financial statements and the Auditors' report thereon, will be mailed to all shareholders about the middle of April.


Chairman and
Chief Executive Officer

Vancouver, Canada
February 26, 1969

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31 (in millions of dollars)

	1968	1967
Sales and Other Income		
Sales of Products and Services	\$ 578.7	\$ 534.8
Other Income	5.8	5.8
	<u>\$ 584.5</u>	<u>\$ 540.6</u>
Earnings before deducting Undernoted Items	\$ 130.6	\$ 116.5
Depreciation, Depletion and Amortization	38.9	31.1
Interest on Borrowed Money	12.9	11.3
	<u>51.8</u>	<u>42.4</u>
Earnings before deducting Income Taxes	78.8	74.1
Income Taxes:		
Current	36.5	30.3
Deferred	3.5	7.6
	<u>40.0</u>	<u>37.9</u>
Net Earnings for the Year	<u>\$ 38.8</u>	<u>\$ 36.2</u>
Earned per Share (dollars)	<u>\$ 1.86</u>	<u>\$ 1.74</u>

NOTE: Subject to audit.

Logging

As graph number 5 shows, log production exceeded all previous years but fell short of expectations because of labour problems and adverse weather conditions experienced late in the year.

In order to increase the supply of logs available for the Company's



'Haida Transporter' launched at North Vancouver.

ITEMS OF INTEREST

A self-propelled railway car barge was launched in April and is the latest addition to the fleet of the Company's Kingcome Navigation Division. The 'Haida Transporter' can carry 26 railway cars and will move carload shipments of newsprint, pulp and lumber from Powell River to transcontinental railway terminals at Vancouver. The vessel is 326 feet long, has a moulded beam of 56 feet and a draft of 11 feet 3 inches. Its twin 1,550-horsepower diesel engines will develop a cruising speed of 13 knots. 'Haida Transporter' will operate seven days a week and is expected to carry some 11,000 railway cars a year.

Kingcome Navigation Division operates MacMillan Bloedel's fleet of tugboats, scows and barges.

The Company is establishing a new logging division on Vancouver Island to meet increased wood requirements due to the new production facilities at Powell River. Eve River Logging Division is located about 80 miles by water from Powell River. The Company's Logging Group plans to engage in both summer and winter operations there, beginning early next January. Initial production of 18 million cubic feet of logs annually will be increased eventually to 41 million cubic feet. A 25-man team is working on the road system and plans for bridges and booming grounds have been completed.



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**MacMillan
Bloedel Limited**

and Subsidiary Companies

**Report to the Shareholders
for the Six Months
Ended June 30, 1968**

1. Sales of Products and Services

2. Sales of Products by Markets

CONSOLIDATED STATEMENT OF EARNINGS

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1968 1967 1966 1965

Sales and Other Income				
Sales of Products and Services	\$285.8	\$272.6	\$234.4	\$214.8
Other Income	2.5	3.4	1.8	1.3
	<u>\$288.3</u>	<u>\$276.0</u>	<u>\$236.2</u>	<u>\$216.1</u>
Earnings before deducting Undernoted Items	\$ 65.3	\$ 62.7	\$ 60.4	\$ 55.6
Depreciation, Depletion and Amortization	17.6	14.1	13.2	12.2
Interest on Borrowed Money	6.5	5.2	2.2	1.7
	<u>24.1</u>	<u>19.3</u>	<u>15.4</u>	<u>13.9</u>
Earnings before deducting Income Taxes	<u>41.2</u>	<u>43.4</u>	<u>45.0</u>	<u>41.7</u>
Income Taxes				
Current	18.8	13.5	13.3	16.4
Deferred	3.6	9.0	9.4	4.2
	<u>22.4</u>	<u>22.5</u>	<u>22.7</u>	<u>20.6</u>
Net Earnings for the Six Months	<u>\$ 18.8</u>	<u>\$ 20.9</u>	<u>\$ 22.3</u>	<u>\$ 21.1</u>
Earned per Share (dollars)	<u>\$.90</u>	<u>\$ 1.00</u>	<u>\$ 1.07</u>	<u>\$ 1.01</u>

NOTE: Subject to audit.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1968 1967 1966 1965

Source of Working Capital				
Net Earnings	\$ 18.8	\$ 20.9	\$ 22.3	\$ 21.1
Non-cash Charges				
Depreciation, Depletion and Amortization	17.6	14.1	13.2	12.2
Deferred Income Taxes	3.6	9.0	9.4	4.2
Sale of Debentures (net after discount and expenses)	7.4	—	38.7	—
Realization of Funds allocated for Capital Purposes*	19.6	11.7	.6	.3
	<u>67.0</u>	<u>55.7</u>	<u>84.2</u>	<u>37.8</u>
Application of Working Capital				
Net Additions to Property, Plant and Equipment	31.5	44.5	33.1	20.4
Investments and Other Assets	11.8	2.9	4.3	1.8
Cash Dividends Paid	10.4	12.5	10.4	10.4
Payments of, and Current Provision for				
Long-term Debt	2.6	2.2	2.7	39.5
Sundry	4.3	1.6	—	—
	<u>60.6</u>	<u>63.7</u>	<u>50.5</u>	<u>72.1</u>
Increase (Decrease) in Working Capital	6.4	(8.0)	33.7	(34.3)
Working Capital at Beginning of Period	90.3	90.1	51.6	63.6
Working Capital at End of Period	<u>\$ 96.7</u>	<u>\$ 82.1</u>	<u>\$ 85.3</u>	<u>\$ 29.3</u>

* Of this, \$18.5 and \$11.2 million respectively in the years 1968 and 1967 represent funds released by the trustee for the bondholders of the Alabama project.

NOTE: Subject to audit.

Logging

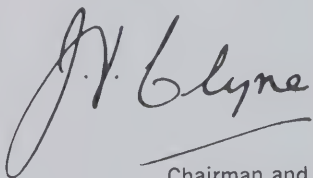
As graph number 5 shows, log production exceeded all previous years but fell short of expectations because of labour problems and other conditions experienced late in the year.

TO THE SHAREHOLDERS

The net earnings for the six months ended June 30, 1968 were \$18,772,159 compared with \$20,868,852 for the corresponding period in the previous year, representing a decrease of \$2,096,693 or 10%. Sales and other income were 4.4% higher in the first six months of 1968, increasing to \$288,288,102 from \$276,047,407 for the first six months of 1967.

Increase in sales in the current year was due principally to stronger demand for lumber and shingles where volume and price were improved from the previous year. The decrease in earnings was due to a reduction in the volume of newsprint shipments, lower prices for pulp and kraft paper and increased costs of production in all phases of operations. Also contributing to lower earnings were higher interest charges and the effect of increased income tax rates, both Federal Income Tax and the British Columbia Logging Tax. Effective as from April 1, 1968 the total Corporation Income Tax rate for the Company is approximately 56%.

The manufacture of lumber and plywood in Alabama has been in operation for the last six months. Due to production problems the results to date have been disappointing. However, the difficulties are being overcome and the long-term prospects continue to be good.



Vancouver, Canada,
July 29, 1968

Chairman and
Chief Executive Officer

increase the supply of logs available for the Company's logging facilities, operations in the Kitimat area were started in 1968 and are now functioning very successfully. A new logging camp on the Skeena River, was also established north of Campbell River, in the Kelsey Bay Division on Vancouver Island. The increase in log production does not affect the policy of maintaining the forest on a perpetual yield basis because of the continued use of modern forestry practices and improved utilization.

Increases in all areas of normal operating costs, significant increases in Crown royalty and stumpage rates were reflected in logging costs. Statutory royalty rates for all species were in effect in 1968. The Vancouver Forest District rate for number one logs, for example, doubled from \$3.00 per thousand feet to \$6.00 per thousand and the rate for number one slash increased from \$3.00 to \$9.00 per thousand.

Townsite developments continued during the year. Sayward, in the Kelsey Bay, was incorporated last summer and 25 new houses were built there during the year to bring the total to 82. Similarly, in the northern part of Vancouver Island, employees owned by the Company and at Port Clements townsite in Nanaimo there are now 25 houses available for employees.

The Haida Navigation Company Limited took delivery of the M.V. HAIDA TRANSPORTER in August. Kingcome is a wholly owned subsidiary operating under the Logging group. It carries 26 rail cars and handles all of the rail shipments out of the Powell River mills to Vancouver with consequent improvement in speed of service to our customers.

The afforestation programme in the Company's history took place in 1968 with 11 million trees being planted on 14,382 acres. In addition, in cooperation with the B.C. Forest Service, 121 acres were planted in plastic "bullet" containers as part of an afforestation programme aimed at increasing survival of planted trees and improved planting productivity.

Over 10 million trees have now been planted on 135,000 acres in British Columbia. In 1968, 31,000 acres were treated with a special form of treatment to improve future yields. At the end of the year of the Company's intensive forestry programme, a total area comprised nearly 230,000 acres.

The research programme included aerial fertilization of 175 acres of forest stands and the continuation of sample plot measurements to provide a basis for more accurate predictions of future yields and response to various treatments in the new forest. Trials have been conducted in co-operation with the Federal Department of Forestry to inhibit root-rotting fungi which enter trees through wounds in stands through scars in adjacent stumps and spread through interlocking root systems.

1. Sales of Products and Services

2. Sales of Products by Markets

CONSOLIDATED STATEMENT OF EARNINGS

Sales and Other Income	
Sales of Products and Services	
Other Income	
Earnings before deducting Undernoted Items	
Depreciation, Depletion and Amortization	
Interest on Borrowed Money	
Earnings before deducting Income Taxes	
Income Taxes	
Current	
Deferred	
Net Earnings for the Six Months	
Earned per Share (dollars)	

NOTE: Subject to audit.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

Source of Working Capital	
Net Earnings	
Non-cash Charges	
Depreciation, Depletion and Amortization	
Deferred Income Taxes	
Sale of Debentures (net after discount and expenses)	
Realization of Funds allocated for Capital Purposes*	
Application of Working Capital	
Net Additions to Property, Plant and Equipment	
Investments and Other Assets	
Cash Dividends Paid	
Payments of, and Current Provision for	
Long-term Debt	
Sundry	
Increase (Decrease) in Working Capital	
Working Capital at Beginning of Period	
Working Capital at End of Period	

* Of this, \$18.5 and \$11.2 million respectively in the years 1968 and 1967 represent funds released by the trustee for the bondholders of the Alabama project.

NOTE: Subject to audit.

Logging

As graph number 5 shows, log production exceeded all previous years but fell short of expectations because of labour problems and adverse weather conditions experienced late in the year.

In order to increase the supply of logs available for the Company's manufacturing facilities, operations in the Kitimat area were started in August and are now functioning very successfully. A new logging division, Eve River, was also established north of Campbell River, adjacent to the Kelsey Bay Division on Vancouver Island. The increased log production does not affect the policy of maintaining the forest resource on a perpetual yield basis because of the continued application of modern forestry practices and improved utilization.

Apart from increases in all areas of normal operating costs, significant increases in Crown royalty and stumpage rates were reflected in higher logging costs. Statutory royalty rates for all species were increased in 1968. The Vancouver Forest District rate for number one cedar logs, for example, doubled from \$3.00 per thousand feet board measure to \$6.00 per thousand and the rate for number one fir logs tripled from \$3.00 to \$9.00 per thousand.

Independent townsite developments continued during the year. Sayward Village, near Kelsey Bay, was incorporated last summer and 25 new dwellings were built there during the year to bring the total to 82.

At Port Hardy, in the northern part of Vancouver Island, employees own 37 houses built by the Company and at Port Clements townsite in the Queen Charlottes there are now 25 houses available for employees.

Kingcome Navigation Company Limited took delivery of the rail car ferry MV HAIDA TRANSPORTER in August. Kingcome is a wholly-owned subsidiary operating under the Logging group.

The vessel carries 26 rail cars and handles all of the rail shipments out of Harmac and Powell River mills to Vancouver with consequent improvement in speed of service to our customers.

Forestry

The largest planting programme in the Company's history took place in 1968, 5.3 million trees being planted on 14,382 acres. In addition, in co-operation with the B.C. Forest Service, 121 acres were planted with trees grown in plastic "bullet" containers as part of an experimental programme aimed at increasing survival of planted trees and improved planting productivity.

Over 60 million trees have now been planted on 135,000 acres in Company holdings in British Columbia. In 1968, 31,000 acres received some form of treatment to improve future yields. At the end of the fifth year of the Company's intensive forestry programme the treated area comprised nearly 230,000 acres.

The forest research programme included aerial fertilization of 175 acres of immature stands and the continuation of sample plot measurements to provide the basis for more accurate predictions of future yields and of growth response to various treatments in the new forest. Trials have been established in co-operation with the Federal Department of Fisheries and Forestry to inhibit root-rotting fungi which enter trees in second growth stands through scars in adjacent stumps and are transmitted through interlocking root systems.

Wood Products

Total sales showed a significant increase in 1968 over 1967 with world prices generally moving to higher levels. On the manufacturing side, cost factors continued their upward movement, particularly in the areas of log costs and labour rates. Their effect, however, was moderated somewhat by improved wood recovery practices and substantial investment in new equipment resulting in various forms of cost reduction. Overall demand for lumber was good in 1968 with prices strengthening in all markets. While shipments to the United Kingdom dropped significantly, reflecting that country's economic difficulties, no problems were encountered in allocating volume to other areas. Table number 9 shows the distribution of lumber, plywood and shingle sales in the world market.

Total plywood shipments increased 10% in 1968 with some appreciation in prices. The higher volume was attributable mainly to the start-up of manufacturing operations in Alabama.

As in previous years, the major markets for Canadian produced Douglas fir plywood were Canada, the United Kingdom and Europe. Although exports to the United States are normally precluded by tariff considerations, a small volume was shipped to that country when there was some slackening in Canadian demand.

Demand for shingles was strong throughout the year with prices rising. Manufacturing costs, however, continued to climb for the reasons previously stated.

The Company continues to sell lumber, plywood and shingles manufactured by British Columbia Forest Products Limited to the satisfaction of both companies.

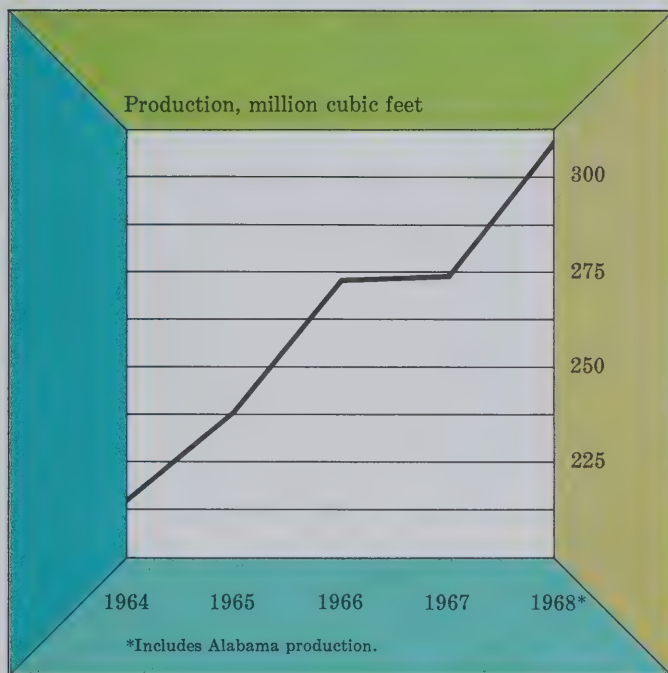
1968 shipments of Aspenite panelboard fell below 1967 volumes due to a seven-week strike at the plant at Hudson Bay, Saskatchewan. In view of projected strong demand for this multi-purpose product, work is well under way to double production capacity at Hudson Bay. Start-up of the expanded facilities is expected in September 1969.

Production of k3 particleboard was interrupted because of a four month work stoppage. Following settlement, the plant is now operating at full capacity to meet the demand for this outstanding product.

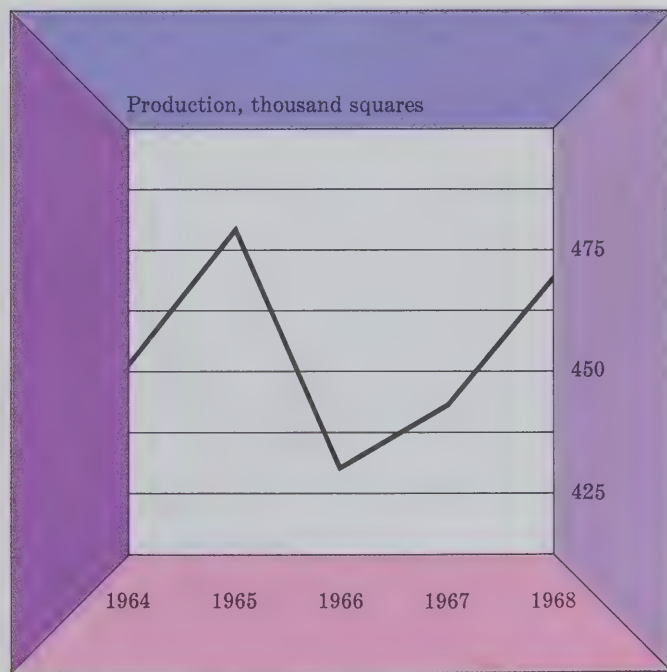
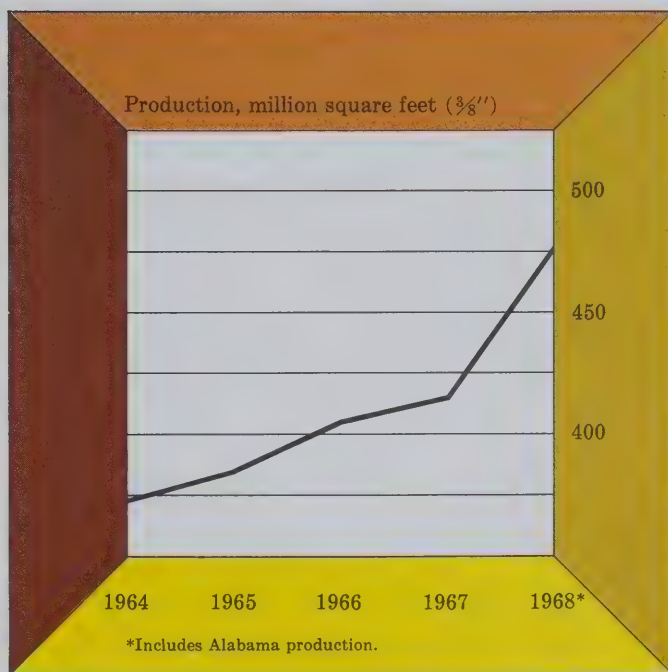
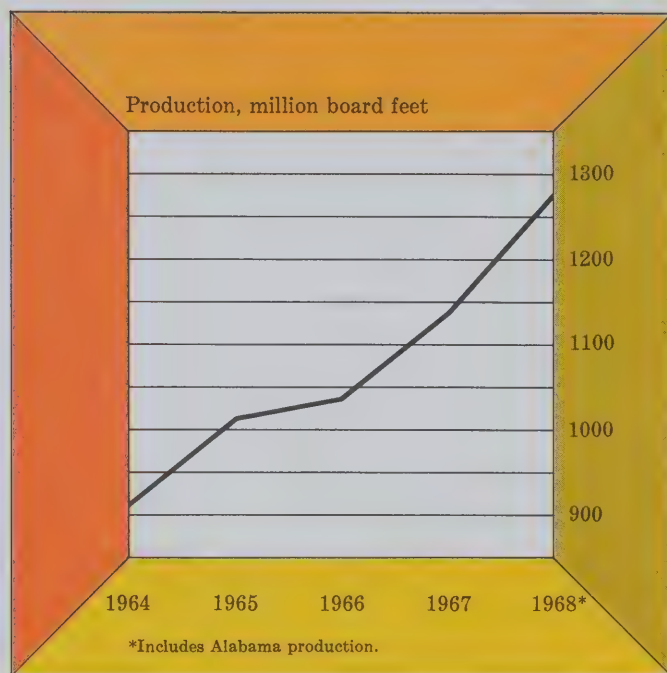
Shipments of specialty boards increased 45% in 1968 with substantial gains recorded for coated plywood concrete form products – Sylvacote Plygard and Sylvacote Uraply. In addition, sales of Woodgrain Overlays (simulated woodgrain patterns applied to k3 particleboard) showed good progress.

During the year new lumber extraction facilities were completed at Powell River as part of the expansion project. The new facilities provide approximately twice the production capacity formerly available at this location.

5. Logs



6. Lumber



7. Plywood

8. Shingles

9. Sales of Lumber, Plywood and Shingles by Markets

	1964	1965	1966	1967	1968
U.S.A.	29%	31%	33%	36%	41%
B.C.	7%	7%	7%	5%	5%
Rest of Canada	22%	17%	19%	17%	15%
U.K.	22%	20%	15%	14%	9%
Japan & Orient	8%	7%	10%	13%	14%
Other	12%	18%	16%	15%	16%
	100%	100%	100%	100%	100%

	1964	1965	1966	1967	1968
U.S.A.	58%	57%	59%	53%	50%
B.C.	8%	8%	8%	8%	8%
Rest of Canada	3%	4%	5%	4%	4%
U.K.	11%	10%	7%	9%	8%
Japan & Orient	7%	5%	8%	10%	11%
Other	13%	16%	13%	16%	19%
	100%	100%	100%	100%	100%

10. Sales of Newsprint, Pulp, Kraft Paper and Paperboard and Fine Paper by Markets

Pulp and Paper

The graphs numbered 11 to 14 show production from the Company's pulp and paper mills in British Columbia. For all pulp and paper products, including production in Alabama, there was an increase of 2.6% over the previous year. Table number 10 shows the distribution of the sales of pulp and paper products in the world market. Canadian shipments of newsprint to the United States western region fell by approximately 8%. This was brought about by a combination of factors including the impact of new domestic capacity in the United States and prolonged strikes in publishing plants of some customers. The Company, as a major supplier to this area, suffered a proportionate share of this loss of business. The market has now improved substantially, however, and a price increase of U.S. \$5.00/ton took effect on January 1, 1969. Comparable increases have also been announced for most overseas markets. Shipments to western Canada continued at very satisfactory levels throughout 1968. As previously mentioned, good progress was also made in the development of overseas markets, particularly those bordering upon the Pacific. These developments increased our offshore movement by approximately 50% over the previous year and have established a base from which further substantial gains can be expected in 1969 and in succeeding years. At the present time the Company is shipping 75% of its newsprint production to the United States, 8% to the western provinces and the remainder to offshore markets.

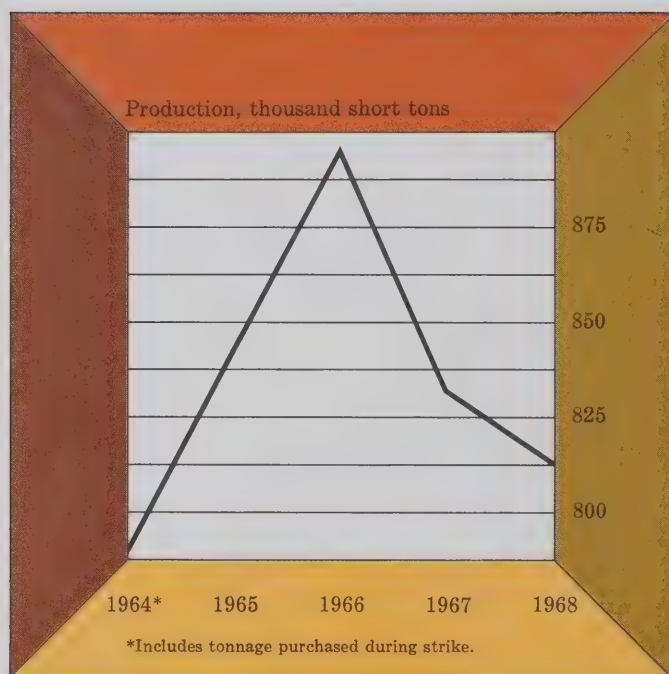
Following the expansion of newsprint and pulp facilities at the Powell River mill in 1967-68, one of the older machines at that mill is currently being modernized with the installation of a Verti-Forma, a new development in newsprint manufacture which adds substantially to grade flexibility to meet market requirements.

As anticipated, the Company's kraft pulp mills operated at less than capacity and below 1967 levels as a result of the world over-supply situation. Demand in the first half of 1968 was strong as customers anticipated a prolonged strike in the summer which did not occur. During the second half of the year demand slowed considerably as customers proceeded to reduce inventories. Consumption and shipments returned to normal in the fourth quarter.

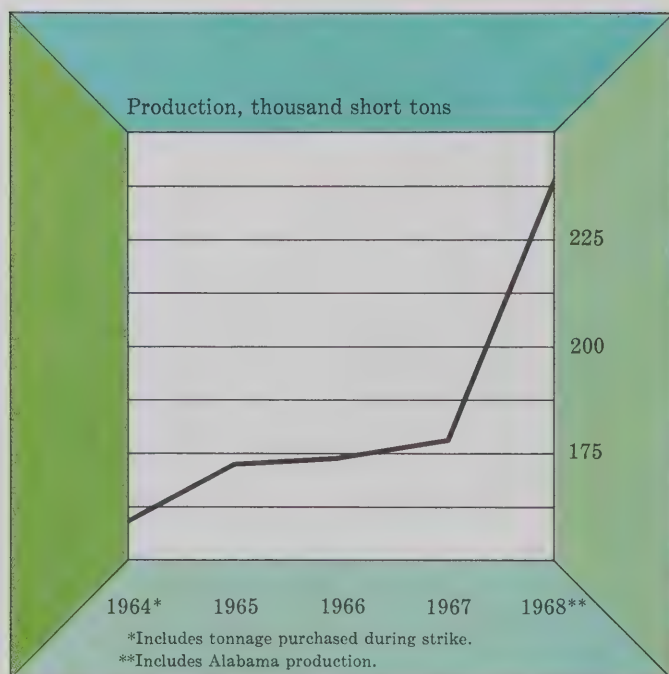
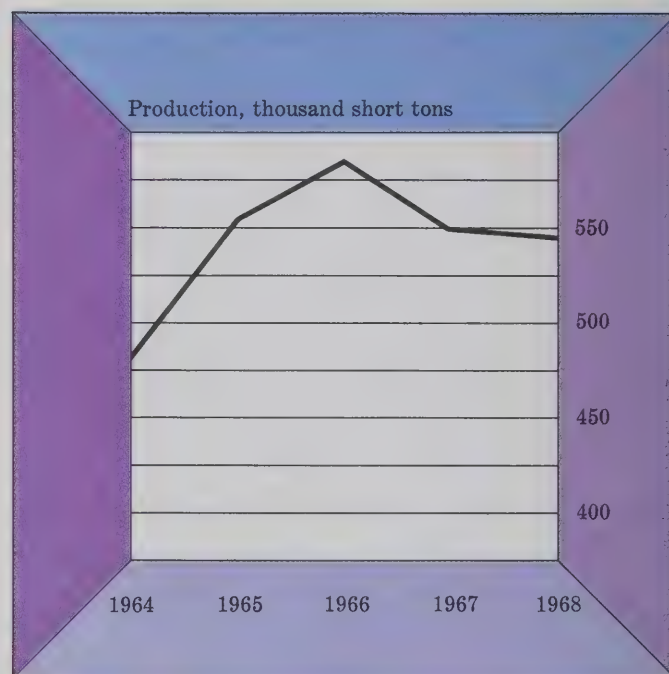
Pulp prices during 1968, although at depressed levels, were relatively firm. Prospects for a better balance between world supply and demand are encouraging and, just before the year-end, price increases were announced for most major markets.

In February 1968 the new semi-bleached kraft pulp mill at Powell River commenced operation. This modern facility has a capacity of 180,000 tons per year, most of which is normally supplied to the newsprint machines at Powell River. As a result, there will be no

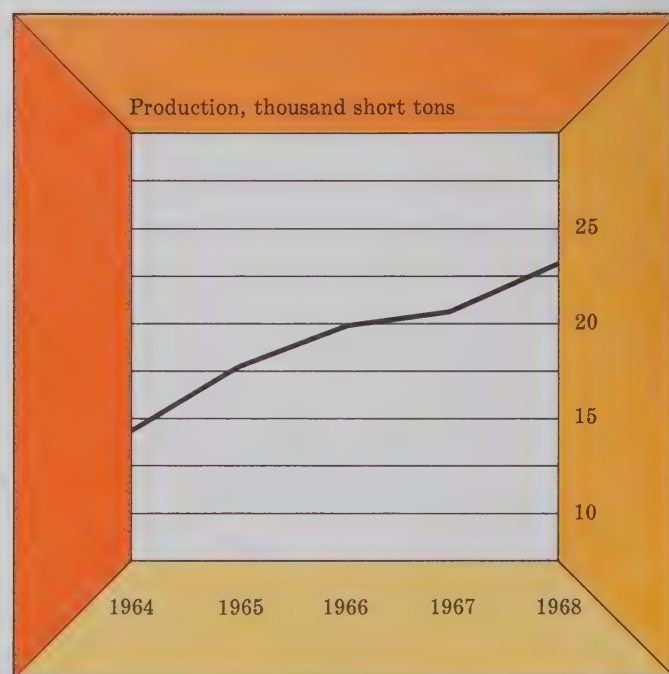
11. Newsprint



12. Pulp



13. Kraft Paper and Paperboard



14. Fine Paper

further shipments of kraft pulp from Harmac to Powell River and substantial new tonnage has thus been released for open market sales. Production of sulphite pulp at Powell River has been discontinued.

The start-up of the kraft mill marked the successful completion of the \$110,000,000 expansion at Powell River which included the number ten newsprint machine, a large modern wood-room and lumber recovery installation.

Kraft paper and paperboard production was maintained at capacity levels during the year and remained strong in the Canadian and United Kingdom markets. Domestic and export prices were firm during the first half and a small price increase was instituted in the United Kingdom at mid-year.

Production of fine paper increased approximately 12% in 1968. Sales continued to be confined to the domestic market where prices and demand remained steady through the first three quarters of the year. However, weaknesses developed in the last quarter and sales declined as a result.

Packaging

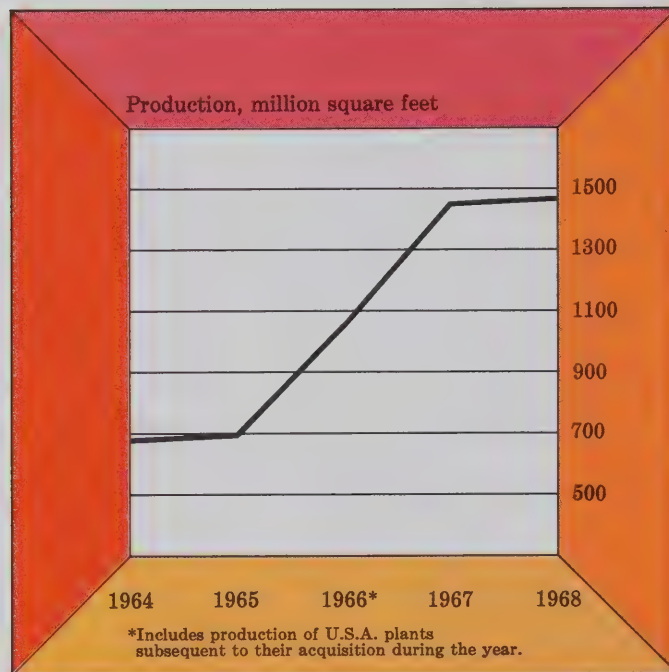
Sales of the group increased by 9.6% during the year. Growth was spread throughout its operations which consist of five corrugating plants in Canada, two in the United States and five in the United Kingdom. In addition, there are two plants located in Burnaby, British Columbia, one of which produces folding and rigid boxes and milk cartons and the other, bags and specialty products. The fourteen plants consumed 270,000 tons of raw materials and, of this total, 71,000 tons of paper were supplied from the Company's own manufacturing facilities.

Major benefits began to emerge in the United Kingdom from the amalgamation of Cooks Corrugated Cases Limited and Hygrade Corrugated Cases Limited under the name of MacMillan Bloedel Containers Limited.

The second stage of the expansion of manufacturing facilities in England at Weston-Super-Mare began during the year and is scheduled for completion in June, 1969. Total expenditure will be approximately \$835,000 and will bring the plant to maximum economic capacity of 600 million square feet per annum of corrugated products.

In co-operation with Corporate Research and Development, three new types of moisture resistant containers were developed for the poultry, fish, meat and vegetable industries and good market acceptance is confidently anticipated.

While prices for the most part remained firm during the year there was some weakness in the bag market and a 10% price reduction became effective in western Canada in October.



15. Corrugated Containers

Research and Development

Major accomplishments of Corporate Research and Development included the development of:

- ☐ a new high-yield kraft pulp process. A pilot plant is under construction and will be completed in July at an estimated cost of \$1,000,000;
- ☐ improvements in the particleboard production process;
- ☐ new coated and overlaid particleboard and specialty wood products.

Encouraging work is under way on automated plywood manufacturing processes, new methods of drying lumber and better methods of utilizing a number of waste materials. Considerable attention is being given to improvements in the field of offset newsprint.

Continued research is being carried out on abatement of water and air pollution in co-operation with other British Columbia pulp and paper companies and the British Columbia Research Council. Noticeable progress is being made in developing practical solutions to this extremely complex problem.

Industrial Relations The Company concluded nineteen union agreements during the year in Canada and the United States without work stoppage except at the Aspenite and Particleboard Divisions. The Company has over 13,000 hourly employees in Canada who worked approximately 26,000,000 hours in 1968. Time lost through strike action was well under one percent. The negotiations with unions representing woods workers and primary pulp and paper mill employees were conducted in association with other employers. While these negotiations were protracted and difficult they were concluded successfully but at high cost. A major difficulty faced by all parties to the negotiations was the extravagant and inflationary settlements concluded elsewhere.

Twelve divisions operated without an accident during the year. Among them was the Bag and Specialty Division which has operated without a lost-time accident since 1957 when the plant was first opened.

98 of the Company's employees completed 25 years' service in 1968 and were welcomed as new members of the Twenty-Five Year Club. Total membership in this Club now numbers 1,863 of whom 1,108 are still actively employed. The Company acknowledges the valuable part these experienced employees are playing in its operations.

Corporate Relations The corporate communications programme which began five years ago was continued and expanded during 1968. Measurements of public attitudes by outside organizations continue to reflect a growing awareness of the Company's role in the Canadian economy, a better knowledge of its products and an enhanced appreciation of its practices and policies. One of the vehicles used to carry the Company story was a new, two-hour version of "Heidi" which was televised nationally in colour. This show reached the largest audience ever recorded in Canada for a single programme.

Transportation A major development in transportation was the delivery of two bulk carriers, the H. R. MACMILLAN and the J. V. CLYNE, chartered on a long-term basis from Canadian Pacific (Bermuda) Limited. These vessels completed six voyages in 1968 – five to the United Kingdom and one to the United States Atlantic Seaboard. Delivery of a third vessel, the N. R. CRUMP, is expected in June 1969.

The Company shipped more than 4,000,000 tons of all products during the year, about 75% by water and the balance by rail. The areas to which products are shipped by the Company are shown in graph number 2.

Capital Expenditures

The total expenditures for the year were \$77,609,013 grouped under the following headings:

LOGGING

Acquisition of logging buildings, equipment and other facilities and the construction of logging roads.....	\$13,542,961
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WOOD PRODUCTS

Lumber and plywood manufacturing facilities and timber and land acquisitions in Alabama, together with general improvements to operations.....	16,447,217
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PULP AND PAPER

Linerboard mill facilities in Alabama, Powell River Division expansion and general improvements to operations.....	28,172,180
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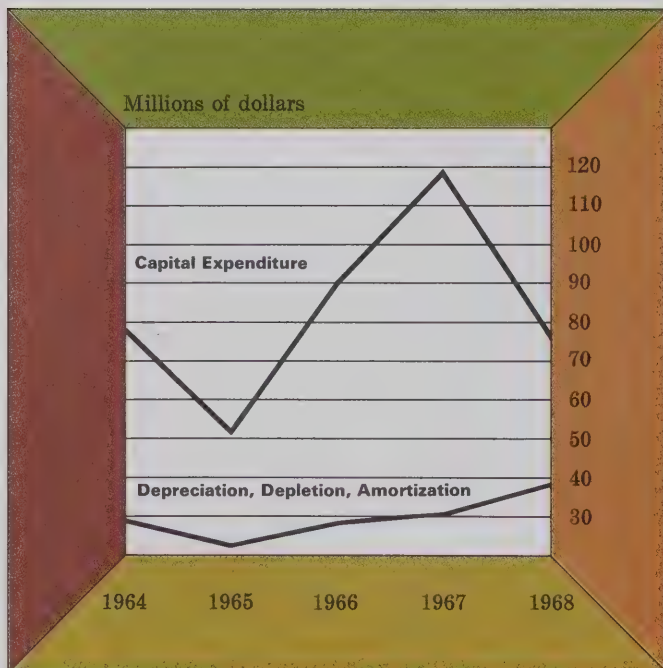
PACKAGING

General improvements to operations.....	1,150,798
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OTHER

New Head Office building and furnishings, research facilities and sundry additions	18,295,857
	<u>\$77,609,013</u>

16. Capital Expenditures



17. Distribution of Shares and Shareholders

As at February 14, 1969	Shares	Shareholders
Canada	15,667,829	21,633
United States	4,380,479	1,286
United Kingdom	76,888	102
Elsewhere	140,528	230
	<u>20,265,724</u>	<u>23,251</u>
Share Warrants	593,781	
	<u>20,859,505</u>	

In regard to share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of warrant holders is not known.

Finance The Company suffered a sad loss in the death of Mr. Geoffrey Eccott who joined the Company as Secretary and Treasurer in 1946 and died suddenly on October 28, 1968. Besides continuing in the office of Secretary, he was appointed Vice-President, Finance in 1951 and occupied that post until his death. He was a Director and a member of the Executive Committee. He made a major contribution to the success and growth of the Company.

While earnings as stated earlier in this report showed a moderate increase, there were several conditions which combined to prevent profits from reaching a higher figure in keeping with the Company's capital investment. During the last half of 1968, the impact of wage increases arising out of the mid-year settlements was significant. There were also heavy start-up costs which are now behind us. Another major factor inhibiting growth in profit was the interest cost of borrowed funds which had to be met before some of the major expansion projects on which the Company had embarked were producing offsetting income. 1969 will be the first full year in which all of the projects for which these funds were borrowed will be in production and contributing revenue.

When plans were developed for the several projects undertaken during the past five years, it was clear that they could not be financed out of internally generated funds alone. It was apparent, too, that large sums would have to be spent on existing installations to place the Company in a position to meet rising levels in the demand for its products forecast for the decade ahead.

At the beginning of 1964 the Company's total long term debt, excluding amounts payable within one year, was \$32,632,450 or 10.1% of total capital employed (including deferred tax). At December 31, 1968 total long term debt was \$247,428,186 or 37.1% of total capital employed, calculated on the same basis. The average interest cost of this additional financing is 5.2%, an effective rate well below rates prevailing in today's markets.

Apart from the very large amounts spent on maintaining and modernizing existing facilities, the major projects undertaken by the Company during this five-year period include:

- ☐ acquisition of Hygrade Corrugated Cases Limited and Cooks Corrugated Cases Limited, subsequently merged into MacMillan Bloedel Containers Limited. This subsidiary, which is showing good profit increases, is a major factor in the United Kingdom corrugated packaging industry and operates autonomously under the overall direction of the Packaging Group of the parent Company;
- ☐ acquisition of a large block of the Esquimalt & Nanaimo Railway Company land grant on Vancouver Island. These timber holdings were essential to capacity operation of the expanded installation at Powell River;
- ☐ acquisition of a minority (36%) interest in Royal Dutch Paper Mills (KNP), a major fine paper manufacturing company with headquarters at Maastricht in southern Holland. Proceeds of this treasury share acquisition were used to finance construction of a new coated paper machine at Lanaken, Belgium, with a capacity of 70,000 metric tons per annum. This machine started up successfully in 1968;

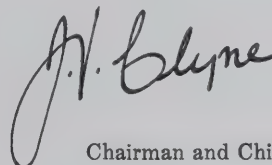


- ☐ acquisition of a minority (30%) interest in Celupal, S.A., a relatively small (25,000 metric tons per annum) but potentially profitable coated paper operation at Algeciras in southern Spain. This operation, in which we are associated with Dutch (KNP) and Spanish partners, had a successful start-up in the month of February 1969;
- ☐ investment in the major expansion at Powell River which included the number ten newsprint machine (start-up June 1967) and a 180,000 tons per annum kraft pulp mill which commenced production early in 1968. The expansion included large-scale wood room and lumber recovery facilities;
- ☐ investment in the Alabama complex which includes a sawmill, plywood mill and timber and logging facilities operated by MacMillan Bloedel Products Inc., a wholly-owned subsidiary, and a 270,000 tons per annum linerboard mill operated by MacMillan Bloedel United Inc., ownership of which is shared between the Company and the United Fruit Company on a 60/40 basis;
- ☐ acquisition of a 58% interest in MacMillan Bloedel Meyer Limited, a United Kingdom company which is a major participant in the importation of lumber into the United Kingdom;
- ☐ acquisition of all shares in Blanchard Lumber Company with headquarters near Boston, Massachusetts and virtually all shares in Kingsway Lumber Co. Limited of Toronto. Both companies are major distributors of building materials servicing important market areas.

The total capital investment in the projects and acquisitions included in this list is well over \$300,000,000. All of them are now contributing in a substantial way to the Company's overall profitability and, while in certain instances this only began to be evident in the last quarter of 1968 – and was offset to a considerable extent earlier in the year by indifferent market conditions encountered in some of our product lines – the contribution will be increasingly apparent in 1969 and in future years.

General The Company is now in an excellent position to maintain and, wherever possible, enhance its traditional position as one of the leaders in the world forest industry. The substantial cash flow to which we can look forward in the next five years will enable the Company to take advantage of major profit opportunities as they are identified.

The completion of the expansion programme outlined in this report is a major achievement. To those employees of the Company who were directly involved and also to those who contributed to the progress of day-to-day operations, I take this opportunity to express, on behalf of the Directors, our thanks for the role they have played.



Chairman and Chief Executive Officer

Vancouver, Canada
March 12, 1969

Historical Review*

	1968	1967	1966
Operating			
Production			
Logs..... (M Cu. Ft.).....	310,003	274,677	273,425
Lumber..... (M FBM).....	1,279,284	1,139,437	1,037,806
Plywood..... (M Sq. Ft. $\frac{3}{8}$ ").....	477,728	416,664	406,271
Shingles..... (Squares).....	469,598	443,816	430,852
Particleboards..... (M Sq. Ft. $\frac{3}{8}$ ").....	81,992	89,905	68,557
Specialty board..... (M Sq. Ft.).....	18,235	12,950	7,517
Newsprint..... (Short tons).....	813,748	832,361	896,361
Pulp..... (Short tons).....	546,761	550,245	586,867
Kraft paper and paperboard..... (Short tons).....	239,285	178,382	174,462
Fine paper..... (Short tons).....	23,292	20,801	20,043
Corrugated containers... (M Sq. Ft.).....	1,473,760	1,454,032	1,057,038
Wages, salaries and employee benefits.....	\$151,115,715	\$132,698,261	\$116,772,119
Number of employees at end of year.....	18,017	16,549	15,959
Financial			
Income, all sources.....	\$584,490,606	\$540,584,464	\$478,954,359
Net earnings after income taxes			
Amount.....	\$ 38,799,447	\$ 36,189,166	\$ 42,460,618
Per share.....	\$ 1.86	\$ 1.74	\$ 2.04
Depreciation, depletion and amortization....	\$ 38,886,342	\$ 31,101,353	\$ 28,340,222
Retained earnings for the year.....	\$ 17,865,303	\$ 11,083,772	\$ 16,343,477
Basic cash flow			
Amount.....	\$ 81,318,431	\$ 75,003,231	\$ 90,941,757
Per share.....	\$ 3.90	\$ 3.60	\$ 4.36
Capital expenditures.....	\$ 77,609,013	\$119,863,008	\$ 90,418,360
Percentage of long term debt to total capital employed (including deferred tax)...	37.1	36.7	35.0
Dividends			
Cash - Ordinary shares			
Amount.....	\$ 20,856,255	\$ 25,027,505	\$ 20,856,255
Per share.....	\$ 1.00	\$ 1.20	\$ 1.00
Cash - Preference shares			
Amount.....	\$ 77,889	\$ 77,889	\$ 46,822
Per share.....	\$.03	\$.03	\$.03
Stock			
Amount.....	—	—	\$ 5,214,064
Per share.....	—	—	\$.25
Number of shareholders at end of year**.....	23,751	24,671	24,415

*Statistics do not reflect the consolidation of overseas subsidiaries other than for equity in net earnings (see Note 1 to Financial Statements).

**Excluding holders of share warrants.

***Includes tonnage purchased during strike.

1965

1964

1963

1962

1961

1960

238,900	215,512	206,206	194,519	171,715	170,603
1,014,757	915,206	804,102	744,024	707,792	699,463
386,457	374,036	372,054	356,974	347,523	299,335
479,983	452,002	449,323	385,423	413,565	385,841
38,016	—	—	—	—	—
1,580	—	—	—	—	—
843,968	790,850***	689,296	681,448	643,576	656,318
556,135	483,773	368,152	343,982	333,932	327,550
173,018	159,683***	159,635	134,825	120,971	115,592
17,868	14,482	12,089	8,429	5,194	1,986
699,881	679,291	665,240	669,523	606,697	624,897
\$101,485,089	\$ 89,500,618	\$ 81,724,493	\$ 77,526,441	\$ 74,865,659	\$ 74,369,957
14,930	14,360	13,430	13,074	13,282	13,108
\$437,182,442	\$413,308,840	\$349,368,343	\$330,669,043	\$315,323,217	\$305,291,437
\$ 40,594,282	\$ 41,440,597	\$ 36,660,068	\$ 36,081,809	\$ 27,395,968	\$ 24,575,651
\$ 1.95	\$ 1.99	\$ 1.76	\$ 1.73	\$ 1.32	\$ 1.18
\$ 23,976,158	\$ 29,007,429	\$ 22,486,653	\$ 21,514,897	\$ 21,903,353	\$ 22,354,087
\$ 15,551,676	\$ 16,425,091	\$ 15,828,813	\$ 20,462,118	\$ 11,776,277	\$ 8,959,663
\$ 76,777,433	\$ 76,007,091	\$ 65,633,622	\$ 59,730,353	\$ 49,619,893	\$ 46,982,182
\$ 3.68	\$ 3.65	\$ 3.15	\$ 2.87	\$ 2.38	\$ 2.26
\$ 52,324,668	\$ 78,439,712	\$ 47,119,433	\$ 37,608,336	\$ 18,613,028	\$ 16,781,622
16.3	19.3	10.1	11.4	13.2	14.4
\$ 20,848,755	\$ 20,846,255	\$ 20,831,255	\$ 15,619,691	\$ 15,619,691	\$ 15,615,988
\$ 1.00	\$ 1.00	\$ 1.00	\$.75	\$.75	\$.75
\$ 24,600	—	—	—	—	—
\$.03	—	—	—	—	—
\$ 4,169,251	\$ 4,169,251	—	—	—	—
\$.20	\$.20	—	—	—	—
23,135	20,597	18,909	18,962	18,606	16,728

Statements).





MacMillan Bloedel's new Head Office building in Vancouver is an important architectural addition to the city's urban environment. It rises 330 feet above Georgia Street in the form of two gently-tapered towers joined by a central service core. The new building, formally opened in

December by the Lieutenant-Governor of British Columbia, Colonel The Honourable John R. Nicholson, provides office space for 800 MB employees who were formerly scattered over seven different Vancouver locations. Space not required by the Company is rented to other tenants. The building

sits well back on the property and is complemented by landscaped plazas and reflection pools. The foyer contains a striking sculpture by Giacomo Manzu, brilliant woollen tapestries by the Quebec designer Madame Rousseau-Vermette, and living trees set in massive planters.



Largest expansion project in the Company's history was completed at Powell River early in 1968, just three years after plans were first announced. The huge complex cost \$110 million to build and includes a kraft pulp mill, Number 10 newsprint machine, new log processing centre, grinder room, barge docking facilities and railroad installations.



The Company's interests now extend to the southern coast of Spain where, at Algeciras, a fine paper mill with annual capacity of 25,000 metric tons started operations early in 1969. Celupal, S.A. is owned jointly by MB, its Dutch associates (KNP) and Spanish interests.



Work was started in September on construction of an \$835,000 expansion at the plant of MB Containers at Weston-Super-Mare in England. Completion is scheduled for later in the current year. Expanded plant will have a capacity of 600 million sq. feet of containers per year and is one of five MB container plants in the U.K.

Major sales effort by MB Wood Products Group utilized a 60-foot highway van with product displays, facilities for lectures, films and demonstrations and seating for 24. The INFO '68 van covered 16,500 miles in 9 months of travel across Canada. More than 7,000 dealers, builders, architects and others saw INFO '68 presentations.



Development was started during the year on Eve River Logging Division which will ultimately produce about 40 million cubic feet of timber a year. When in full operation the new division on northern Vancouver Island will employ 170 men at summer and winter areas 50 miles northwest of Campbell River.





The 270,000 tons per year linerboard mill of MacMillan Bloedel United at Pine Hill, Alabama, went into operation in October, 1968. The integrated Alabama complex includes MB Products' sawmill and plywood mill which were completed earlier.



Koninklijke Nederlandsche Papierfabriek completed the installation of a new fine paper machine in the spring of 1968. The machine was the seventh for the Dutch company in which MB has a substantial interest. It is located in Lanaken, Belgium, adjacent to KNP's main plant in Holland. The new machine is rated at 70,000 metric tons per year capacity.





MB supplied 18 prime Douglas fir logs for construction of the B.C. pavilion at Expo 70 in Osaka, Japan. Some were the height of a 17-storey building and received special handling in the falling, yarding, trucking and booming to preserve all the bark intact, according to pavilion designers' specifications. The logs came from Copper Canyon Division.

The Company's first self-propelled railcar ferry, HAIDA TRANSPORTER, joined the fleet in August. The vessel carries 26 railway cars between Vancouver, Powell River and Harmac with carloads of chemicals, newsprint, pulp and lumber. HAIDA TRANSPORTER can carry 2,300 tons at a speed of 15 knots.

One of three Munkloader gantry cranes aboard the MS H. R. MACMILLAN discharges MB newsprint at Berth 42, Tilbury docks in London. Both ship and docking facilities are part of Company's new approach to distribution in the United Kingdom market.

Consolidated Balance Sheet

DECEMBER 31 1968

Assets

	December 31 1968	December 31 1967
CURRENT ASSETS:		
Cash	\$ 3,758,889	\$ 5,730,630
Short term investments and deposits	7,503,356	4,899,121
Trade and other accounts receivable	80,152,867	65,287,047
Amounts receivable from non-consolidated subsidiaries ..	3,287,174	15,361,529
Inventories (Note 2)	78,838,297	68,902,305
Prepaid expenses	1,432,531	1,282,431
	<u>174,973,114</u>	<u>161,463,063</u>
INVESTMENTS AND OTHER ASSETS:		
Non-consolidated subsidiaries –		
Investments (Note 1)	44,489,797	42,159,196
Advances	1,104,489	2,381,778
Investments, at cost (quoted market value – \$9,198,870) ..	4,924,265	5,295,122
Other investments and miscellaneous assets	18,246,682	5,804,335
Special refundable tax	—	2,332,392
	<u>68,765,233</u>	<u>57,972,823</u>
FUNDS ALLOCATED FOR CAPITAL PURPOSES:		
Held by trustee for bondholders	2,216,350	25,120,874
Government notes and bonds, payable in U.S. funds, at cost (quoted market value – \$4,942,500)	4,472,220	5,569,743
	<u>6,688,570</u>	<u>30,690,617</u>
PROPERTY, PLANT AND EQUIPMENT (Note 3):		
Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment (including leased facilities), at cost	701,784,287	571,842,151
Less –		
Accumulated depreciation	307,276,304	285,199,944
	<u>394,507,983</u>	<u>286,642,207</u>
Construction in progress	—	75,170,698
Timber and land, at cost less accumulated depletion (December 31 1968 – \$60,083,073; December 31 1967 – \$54,748,644)	80,746,608	77,093,889
Logging roads, at cost less amortization	15,600,729	13,225,855
	<u>490,855,320</u>	<u>452,132,649</u>
BOND AND DEBENTURE DISCOUNT AND FINANCING EXPENSES,		
at cost less amortization	1,688,774	1,807,074
	<u>\$742,971,011</u>	<u>\$704,066,226</u>

Liabilities

	December 31 1968	December 31 1967
CURRENT LIABILITIES:		
Bank loans (in part secured).....	\$ 14,194,361	\$ 8,234,506
Note payable.....	921,092	5,065,354
Accounts payable and accrued liabilities.....	44,816,242	46,780,394
Income taxes payable.....	11,137,219	10,117,968
Current portion of long term debt (Note 5).....	4,258,531	998,022
	<u>75,327,445</u>	<u>71,196,244</u>
CONSTRUCTION ACCOUNTS PAYABLE.....	<u>716,617</u>	<u>3,949,938</u>
LONG TERM DEBT:		
Bonds and debentures (Note 4).....	222,996,449	220,269,386
Other secured liabilities.....	24,431,737	10,520,175
	<u>247,428,186</u>	<u>230,789,561</u>
DEFERRED INCOME TAXES (Note 6).....	<u>63,443,009</u>	<u>59,934,257</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....	<u>311,001</u>	<u>316,776</u>
	<u>387,226,258</u>	<u>366,186,776</u>

Shareholders' Equity

SHARE CAPITAL:		
Redeemable non-cumulative 3% preference shares with a par value of \$1 each – Authorized – 2,749,066 shares Outstanding – 2,596,285 shares.....	2,596,285	2,596,285
Ordinary shares without nominal or par value (Note 7) – Authorized – 25,000,000 shares Outstanding – 20,856,255 shares.....	<u>159,497,000</u>	<u>159,497,000</u>
	162,093,285	162,093,285
RETAINED EARNINGS – per statement attached.....	<u>193,651,468</u>	<u>175,786,165</u>
	355,744,753	337,879,450
COMMITMENTS (Note 8)		
CONTINGENT LIABILITIES (Note 9)		
APPROVED ON BEHALF OF THE BOARD: J. V. Clyne <i>Director</i> E. G. Shorter <i>Director</i>	<u>\$742,971,011</u>	<u>\$704,066,226</u>

MacMillan Bloedel Limited

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31 1968

	1968	1967
Sales and other income:		
Sales of products and services (Note 10).....	\$578,682,162	\$534,816,599
Other income (Note 11).....	5,808,444	5,767,865
	<u>584,490,606</u>	<u>540,584,464</u>
Costs and expenses:		
Cost of sales and services.....	457,839,187	424,193,557
Marketing, advertising and promotion expenses.....	13,585,101	12,390,825
General and administrative expenses.....	21,320,182	18,628,342
Interest on long term debt.....	11,857,259	10,476,578
Bank and other interest.....	1,059,808	775,858
	<u>505,661,537</u>	<u>466,465,160</u>
Earnings before deducting income taxes.....	<u>78,829,069</u>	<u>74,119,304</u>
Income taxes:		
Current.....	36,520,870	30,330,181
Deferred (Note 6).....	3,508,752	7,599,957
	<u>40,029,622</u>	<u>37,930,138</u>
Net earnings for the year.....	<u>\$ 38,799,447</u>	<u>\$ 36,189,166</u>
Net earnings per ordinary share.....	<u>\$ 1.86</u>	<u>\$ 1.74</u>
Cost of sales and services includes the following (Note 12):		
Depreciation.....	\$ 28,390,560	\$ 21,901,520
Depletion.....	5,398,421	4,832,870
Amortization of logging roads.....	5,097,361	4,366,963
	<u>\$ 38,886,342</u>	<u>\$ 31,101,353</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31 1968

	1968	1967
Balance at beginning of year.....	\$175,786,165	\$164,702,393
Net earnings for the year – per statement above.....	38,799,447	36,189,166
	<u>214,585,612</u>	<u>200,891,559</u>
Dividends:		
On ordinary shares – \$1.00 per share (1967 – \$1.20).....	20,856,255	25,027,505
On preference shares.....	77,889	77,889
	<u>20,934,144</u>	<u>25,105,394</u>
Balance at end of year.....	<u>\$193,651,468</u>	<u>\$175,786,165</u>

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31 1968

	1968	1967
Source of working capital:		
Net earnings.....	\$ 38,799,447	\$ 36,189,166
Non-cash charges in arriving at net earnings –		
Depreciation, depletion and amortization		
of logging roads.....	38,886,342	31,101,353
Deferred income taxes.....	3,508,752	7,599,957
Amortization of bond and debenture discount		
and financing expenses.....	123,890	112,755
	81,318,431	75,003,231
Proceeds of issue of bonds and debentures.....	7,367,281	24,598,985
Refund of special tax.....	2,332,392	424,891
Sale of Government notes and bonds.....	1,097,523	545,438
Other items (net).....	478,054	138,044
	92,593,681	100,710,589
Application of working capital:		
Net additions to property, plant and equipment.....	77,609,013	119,863,008
Less –		
Financed from funds allocated for capital purposes		
and by non-current liabilities.....	33,464,203	50,707,283
	44,144,810	69,155,725
Dividends.....	20,934,144	25,105,394
Investments in and advances to		
non-consolidated subsidiaries.....	1,053,312	3,518,339
Other investments and miscellaneous assets.....	12,442,347	198,205
Payments of, and current provision for,		
bonds and debentures.....	4,640,218	2,524,219
	83,214,831	100,501,882
Increase in working capital.....	9,378,850	208,707
Working capital at beginning of year.....	90,266,819	90,058,112
Working capital at end of year.....	\$ 99,645,669	\$ 90,266,819

Auditors' Report**TO THE SHAREHOLDERS OF MacMILLAN BLOEDEL LIMITED:**

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31 1968 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31 1968, and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 7 1969.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Notes to Consolidated Financial Statements

AS AT DECEMBER 31 1968

1. PRINCIPLES OF CONSOLIDATION:

It is the company's practice to include in its consolidated financial statements the accounts of all subsidiaries other than overseas subsidiaries operating in the United Kingdom and elsewhere. The equity of MacMillan Bloedel Limited in the net earnings for the year of the non-consolidated subsidiaries is included in the accompanying consolidated statement of earnings. The investments in these subsidiaries are carried on the consolidated balance sheet at a cost of \$38,347,444 plus the company's share of undistributed net earnings since acquisition. While the carrying value of the investments is in excess of the related equity in the net assets at book value, it is not considered that any provision for amortization is required.

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect as at the balance sheet date, or at rates related to forward exchange contracts, other assets (and related depreciation and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred and items entering into net earnings (other than inventories, depreciation and amortization) at the average rates for the year. The net balance arising from the translation of foreign currencies, which is not material, has been reflected in net earnings.

2. INVENTORIES:

The companies' inventories as at December 31 1968 and December 31 1967 comprised the following:

	December 31	
	1968	1967
Logs, pulp chips and other raw materials.....	\$27,470,434	\$25,315,967
Lumber, plywood and other wood products.....	26,267,607	22,245,188
Pulp and paper products.....	11,280,493	8,825,493
Packaging products.....	1,750,850	1,747,487
Operating and maintenance supplies.....	12,068,913	10,768,170
	<u>\$78,838,297</u>	<u>\$68,902,305</u>

Logs, pulp chips and other raw materials and operating and maintenance supplies are valued at the lower of cost and replacement cost and manufactured products at the lower of cost and net realizable value.

3. PROPERTY, PLANT AND EQUIPMENT:

Particulars of plant and equipment as at December 31 1968 and December 31 1967 are as follows:

	Cost	Accumulated depreciation	Net book value
December 31 1968:			
Pulp and paper mills.....	\$510,795,675	\$213,728,728	\$297,066,947
Sawmills, plywood mills and other wood products plants.....	87,051,282	44,632,311	42,418,971
Logging buildings and equipment.....	54,194,710	33,501,795	20,692,915
Packaging plants.....	17,519,329	8,633,108	8,886,221
Other buildings and equipment.....	32,223,291	6,780,362	25,442,929
	<u>\$701,784,287</u>	<u>\$307,276,304</u>	<u>\$394,507,983</u>
December 31 1967:			
Pulp and paper mills.....	\$422,695,682	\$198,270,073	\$224,425,609
Sawmills, plywood mills and other wood products plants.....	67,646,255	40,967,660	26,678,595
Logging buildings and equipment.....	50,353,070	31,434,124	18,918,946
Packaging plants.....	16,415,767	7,846,707	8,569,060
Other buildings and equipment.....	14,731,377	6,681,380	8,049,997
	<u>\$571,842,151</u>	<u>\$285,199,944</u>	<u>\$286,642,207</u>

The company's plant facilities in Alabama and its new head office building are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Accordingly the cost of these leased assets, aggregating \$86,250,267 at December 31 1968 (\$54,079,064 at December 31 1967) and related depreciation and long term debt are reflected in the accompanying financial statements.

4. BONDS AND DEBENTURES:

	December 31	
	1968	1967
MacMillan Bloedel Limited –		
4.95% sinking fund debentures Series “A” maturing October 1 1990: \$42,000,000 U.S. (Canadian equivalent \$45,045,000) – at amount realized	\$ 45,120,383	\$ 45,120,383
5½% ten-year term debentures Series “B” maturing January 3 1976..	50,000,000	50,000,000
6½% sinking fund debentures Series “C” maturing July 15 1992: \$30,000,000 U.S. (Canadian equivalent \$32,175,000) – at amount realized	32,329,500	24,962,219
	<u>127,449,883</u>	<u>120,082,602</u>
MacMillan Bloedel Industries Limited –		
Sinking fund debentures:		
5¾% twenty-year debentures Series “A” maturing May 15 1978..	10,374,000	10,851,000
4⅞% twenty-year debentures Series “B” maturing May 15 1978 – \$5,230,000 U.S. (Canadian equivalent \$5,609,175) – at amount realized	5,032,241	6,283,084
	<u>15,406,241</u>	<u>17,134,084</u>
Burnaby Paperboard Ltd. –		
First mortgage and collateral trust bonds:		
1955 Series –		
4½% sinking fund bonds maturing September 1 1975	3,765,000	4,016,000
1958 Series –		
5¾% serial bonds maturing May 15 1968	—	100,000
5¾% sinking fund bonds maturing May 15 1978	1,847,000	1,903,000
	<u>5,612,000</u>	<u>6,019,000</u>
Kingsway Lumber Co. Limited –		
6¾% sinking fund debentures:		
Series “A” maturing December 15 1982	862,500	929,000
Series “B” maturing February 1 1985	783,000	848,000
	<u>1,645,500</u>	<u>1,777,000</u>
MacMillan Bloedel Products Inc.* –		
3.95% to 4.10% industrial development revenue bonds, maturing June 1 1969 to 1975 – \$3,200,000 U.S. (Canadian equivalent \$3,432,000) – at amount realized	3,440,000	3,440,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988 – \$10,800,000 U.S. (Canadian equivalent \$11,583,000) – at amount realized	11,610,000	11,610,000
	<u>15,050,000</u>	<u>15,050,000</u>
MacMillan Bloedel United Inc.* –		
3.95% to 4.10% industrial development revenue bonds, maturing June 1 1969 to 1975 – \$12,800,000 U.S. (Canadian equivalent \$13,728,000) – at amount realized	13,760,000	13,760,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988 – \$43,200,000 U.S. (Canadian equivalent \$46,332,000) – at amount realized	46,440,000	46,440,000
	<u>60,200,000</u>	<u>60,200,000</u>
MacMillan Bloedel (Manitoba) Limited –		
4% debentures maturing July 1 1970	160,700	160,700
	<u>225,524,324</u>	<u>220,423,386</u>
Less –		
Payments due within one year (Note 5)	2,527,875	154,000
	<u>\$222,996,449</u>	<u>\$220,269,386</u>

*These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 3).

MacMillan Bloedel Limited

Notes to Consolidated Financial Statements as at December 31 1968 (continued)

5. PAYMENTS ON LONG TERM DEBT:

The payments on long term debt in each of the five years following December 31 1968 are as follows:

	Bonds and debentures	Other secured liabilities	Total
1969	\$2,527,875*	\$1,730,656	\$ 4,258,531
1970	3,516,825*	1,558,525	5,075,350
1971	7,106,823*	1,366,989	8,473,812
1972	7,233,567	1,328,151	8,561,718
1973	8,962,917	1,339,105	10,302,022

*Reduced by purchase and cancellation of bonds and debentures up to December 31 1968.

6. DEFERRED INCOME TAXES:

It is the company's practice to record income taxes on the tax allocation basis recommended by The Canadian Institute of Chartered Accountants, wherever this basis is appropriate. As the recommended requirements were not present in the case of accumulated losses of certain subsidiaries, aggregating \$3,345,395 to December 31 1968, this method of accounting for income taxes was not followed; accordingly, these losses are available to reduce income tax provisions of future years.

7. STOCK OPTIONS:

As at December 31 1968 options for 96,000 shares were outstanding under the key employees' stock option plan. The options are exercisable up to October 6 1970 at \$26.75 per share, being at least 90% of the closing price on the last business day before the options were granted.

8. COMMITMENTS:

The company is committed in respect of the following:

(a) An annual rental of \$145,239 (excluding taxes, insurance and other occupancy expenses payable by the company) up to 1988 under a lease of its former head office building (now sublet to other tenants).

(b) The hire by one of the company's subsidiaries of certain vessels under charter agreements for varying periods up to May 1977 at rentals aggregating \$27,434,000 for the periods of charter. The rentals due under these agreements are as follows:

1969	\$ 3,169,000
1970 to 1975 (\$3,676,000 annually)	22,056,000
1976	1,702,000
1977	507,000
	<u>\$27,434,000</u>

(c) The commencement of construction on or before January 1 1971 of a mill for manufacturing either pulp or paper at Whitecourt, Alberta, in order to preserve the rights to timber leases acquired at a cost of \$1,725,500.

(d) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2028); payments of \$1,600,000 are required in each of the next five years.

(e) Agreements with certain of the company's executive officers (including some now retired), which call for pension payments, not funded or otherwise provided for, to be made under certain conditions following retirement.

9. CONTINGENT LIABILITIES:

The company and its subsidiaries were contingently liable as at December 31 1968 in respect of bills discounted and bank guarantees in the amounts of \$6,055,014 and \$1,536,000 respectively.

10. SALES OF PRODUCTS AND SERVICES:

Sales, as in prior years, include the sales of products for account of, or purchased from, other manufacturers on which the margin of gross profit realized by the company is substantially less than that realized on the sale of its own manufactured products.

11. OTHER INCOME:

Particulars of other income for the years ended December 31 1968 and December 31 1967 are as follows:

	1968	1967
Equity in net earnings of non-consolidated subsidiaries (Note 1)	\$1,978,868	\$1,442,740
Income from other investments	1,887,399	4,052,006
Profit on disposal of investments and capital assets	1,942,177	273,119
	<u>\$5,808,444</u>	<u>\$5,767,865</u>

12. DEPRECIATION, DEPLETION AND AMORTIZATION:

As in the preceding year, depreciation was computed for 1968 on a straight line basis on original cost at rates varying from 2½% on buildings to 15% on logging equipment. Depletion has been provided in both years on a timber cut basis and amortization of logging roads on a basis related to log production.

MacMillan Bloedel Limited HEAD OFFICE: 1075 West Georgia Street, Vancouver 5, B.C.

Logging operations, plants and distribution centres

LOGGING OPERATIONS, B.C.

Cameron
Copper Canyon
Eve River
Franklin River
Kelsey Bay
Kennedy Lake
Kitimat
Knight Inlet
Menzies Bay
Misery Creek
Nanaimo River
Northwest Bay
Port Hardy
Queen Charlotte
Shawnigan
Sproat Lake
Squamish
Stillwater
Wilson Creek

CEDAR POLE YARDS

Nanaimo River, B.C.
New Westminster, B.C.

LUMBER

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

PLYWOOD

Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

WOOD PRODUCT SPECIALTIES

Hudson Bay, Sask.
Aspenite Panelboard
Port Alberni, B.C.
Shingles
Vancouver, B.C.
Particleboard
Pres-to-logs
Shingles
Specialty Board

NEWSPRINT

Port Alberni, B.C.
Powell River, B.C.

PULP

Harmac, B.C.
Bleached Sulphate
Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

SPECIALTY PAPER PRODUCTS

Annacis Island,
New Westminster, B.C.
Fine Papers
Burnaby, B.C.
Boxboard
Gypsum Papers
Roofing Felts
Pine Hill, Alabama
Linerboard
Port Alberni, B.C.
Kraft Corrugating Medium
Kraft Paper
Linerboard
Powell River, B.C.
Core Stock
Corrugating Medium

CORRUGATED CONTAINER PLANTS

CANADA
Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.

UNITED KINGDOM
Hatfield, Herts.
Nelson, Lancs.
Southall, Middlesex
West Auckland, Co. Durham
Weston-Super-Mare, Somerset

UNITED STATES
Baltimore, Md.
Jersey City, N.J.

OTHER CONTAINER PLANTS

Burnaby, B.C.
Folding Boxes
Rigid Boxes
Set-up Boxes
Milk Cartons
Paper Bags
Wrapping Papers

CANADIAN SALES OFFICES AND DISTRIBUTION CENTRES

Wood Products

EASTERN

Truro, N.S.
Drummondville, Que.
Montreal, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Brantford, Ont.
Carleton Place, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
Orillia, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sudbury, Ont.
Timmins, Ont.
Toronto, Ont.
Windsor, Ont.

WESTERN

Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Edmonton, Alta.
Calgary, Alta.
Lethbridge, Alta.
Vancouver, B.C.

Principal subsidiary companies

Alberni Pulp & Paper Ltd.
Blanchard Lumber Company
Burnaby Paperboard Ltd.
Canadian Transport Company Limited
Canadian Transport (Terminals) Limited
Kingscome Navigation Company Limited
Kingsway Lumber Co. Limited
MacMillan Bloedel (Alabama) Inc.
MacMillan Bloedel (Alberni) Limited
MacMillan Bloedel (Alberta) Limited
MacMillan Bloedel (B.C.) Limited
MacMillan Bloedel Building Limited
MacMillan Bloedel Containers Limited
MacMillan Bloedel Industries Limited
MacMillan Bloedel (Manitoba) Limited

MacMillan Bloedel Meyer Limited
MacMillan Bloedel Meyer (Terminals) Limited
MacMillan Bloedel (New York) Inc.
MacMillan Bloedel (Ontario) Limited
MacMillan Bloedel Packaging Limited
MacMillan Bloedel Products Inc.
MacMillan Bloedel Pty. Limited
MacMillan Bloedel Pulp and Paper Sales Limited
MacMillan Bloedel (Quebec) Limited
MacMillan Bloedel Research Limited
MacMillan Bloedel Sales Inc.
MacMillan Bloedel (Saskatchewan) Limited
MacMillan Bloedel United Inc.
MacMillan Jardine Limited

Directors

- PRENTICE BLOEDEL *Bainbridge Island, Washington, U.S.A.*
Retired - former Vice-Chairman, MacMillan & Bloedel Limited
- R. W. BONNER, Q.C. *Vancouver, British Columbia*
Senior Vice-President, Administration,
MacMillan Bloedel Limited
- ANSON BROOKS *Seattle, Washington, U.S.A.*
President, Powell River-Alberni Sales Corporation
- F. H. BROWN *Vancouver, British Columbia*
President, The White Pass and Yukon Corporation Limited
- J. M. BUCHANAN *Vancouver, British Columbia*
Chancellor of the University of British Columbia
- A. B. CHRISTOPHER *Vancouver, British Columbia*
Chairman of the Board, Nelsons Laundries Limited
- THE HONOURABLE J. V. CLYNE *Vancouver, British Columbia*
Chairman of the Board and Chief Executive Officer,
MacMillan Bloedel Limited
- MARK COLLINS *Vancouver, British Columbia*
President, Smith Lithograph Company Limited
- GORDON FARRELL *Vancouver, British Columbia*
Chairman, Ocean Cement & Supplies Ltd.
- L. G. HARRIS *Vancouver, British Columbia*
Executive Vice-President,
MacMillan Bloedel Limited
- J. O. HEMMINGSEN *Vancouver, British Columbia*
Executive Vice-President,
MacMillan Bloedel Limited
- J. N. HYLAND *Vancouver, British Columbia*
Retired - former Chairman,
British Columbia Packers Ltd.
- JOHN LECKY *Vancouver, British Columbia*
Vice-President and General Manager,
Smith, Davidson & Lecky Limited
- G. A. L. M. LHOEST *Maastricht, Holland*
Director, Koninklijke Nederlandsche Papierfabriek N.V.
- H. R. MACMILLAN *Vancouver, British Columbia*
Retired - former Chairman, MacMillan & Bloedel Limited
- H. T. MITCHELL *Vancouver, British Columbia*
President, Mitchell Press Limited
- J. E. RICHARDSON *Vancouver, British Columbia*
President and Chief Executive Officer,
British Columbia Telephone Company
- E. G. SHORTER *Vancouver, British Columbia*
Vice-Chairman, MacMillan Bloedel Limited
- *S. G. SMITH *Vancouver, British Columbia*
Retired - former Vice-President and General Manager,
Bloedel, Stewart & Welch Limited
- G. T. SOUTHAM *Vancouver, British Columbia*
President, Pioneer Envelopes Limited
- C. A. SPECHT *Chicago, Illinois, U.S.A.*
President and Chief Executive Officer,
Consolidated Packaging Corp.
- W. J. VANDUSEN *Vancouver, British Columbia*
Retired - former Vice-Chairman, MacMillan & Bloedel Limited
- FREDERICK WILSON *Spokane, Washington, U.S.A.*
Investment Counsel
- C. B. WRIGHT, JR. *Seattle, Washington, U.S.A.*
Real Estate Development

Executive Committee

- THE HONOURABLE J. V. CLYNE (*Chairman*)
- PRENTICE BLOEDEL
- F. H. BROWN
- L. G. HARRIS
- J. O. HEMMINGSEN
- H. R. MACMILLAN
- E. G. SHORTER
- C. A. SPECHT
- W. J. VANDUSEN

Officers

- THE HONOURABLE J. V. CLYNE *Chairman of the Board
and Chief Executive Officer*
- E. G. SHORTER *Vice-Chairman*
- L. G. HARRIS *Executive Vice-President*
- J. O. HEMMINGSEN *Executive Vice-President*
- R. W. BONNER *Senior Vice-President, Administration*
- H. R. CHISHOLM *Group Vice-President, Logging*
- J. R. FORREST *Group Vice-President, Wood Products*
- D. W. TIMMIS *Group Vice-President, Pulp and Paper*
- H. V. TOWNSEND *Group Vice-President, Packaging*
- G. B. CURRIE *Vice-President, Finance
Vice-President, Strategic Planning and Development*
- P. M. DOWNES *Vice-President, Corporate Communications*
- Dr. L. A. COX *Director of Research*
- R. M. BIBBS *Vice-President, Industrial Relations*
- F. H. BRITTON *Secretary and General Counsel*
- A. C. McGOUGAN *Vice-President, Pulp and Paper Sales,
Pulp and Paper Group*
- J. H. LAWSON *Vice-President, Manufacturing, Wood Products Group*
- B. P. PAGE *Vice-President, Marketing, Wood Products Group*
- C. G. CHAMBERS *Treasurer*
- T. P. BOYLE *Corporate Controller*
- A. P. MacBEAN *Chief Forester*
- E. N. WALTON *Chief Engineer*
- I. S. BRAND *Director, Far Eastern Development*
- E. G. LEGG *Assistant Treasurer*
- R. D. MacFAYDEN *Assistant Secretary*
- J. G. C. CUNNINGHAM *Assistant Secretary*

Registrars and Transfer Agents

- THE ROYAL TRUST COMPANY, *Vancouver*
- THE CANADA TRUST COMPANY, *Calgary, Winnipeg, Toronto, Montreal*
- THE CHASE MANHATTAN BANK, *New York*

Auditors

- PRICE WATERHOUSE & CO., *Vancouver*

